



2014 Property Reappraisal Presentation

The Road Show Players

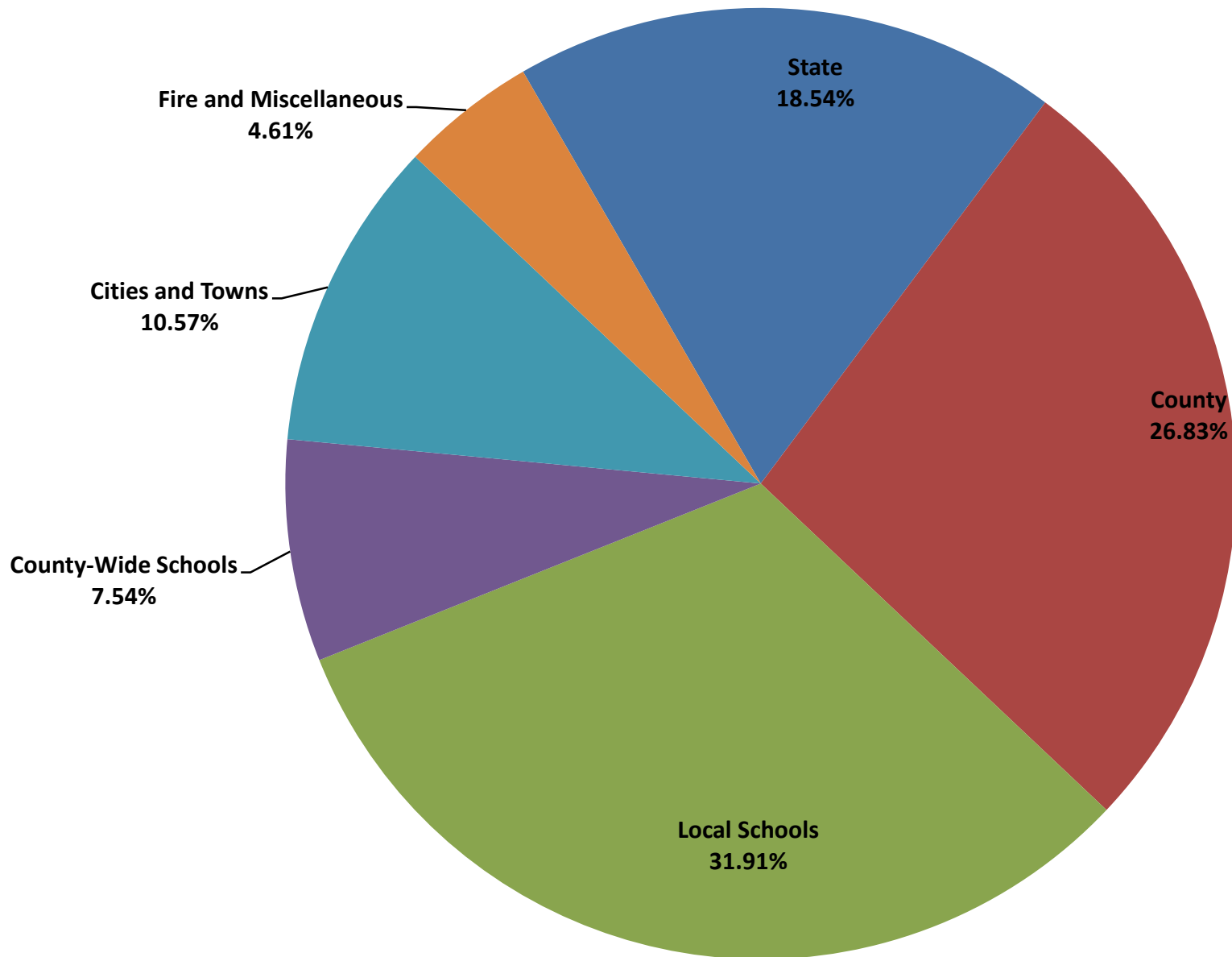
August 21, 2014

- Mike Kadas – Director of Department of Revenue
- Cynthia Monteau-Moore – Administrator Property Assessment Division
- Gene Walborn – Administrator Business and Income Tax Division
- Ed Caplis – Director of Tax Policy and Research

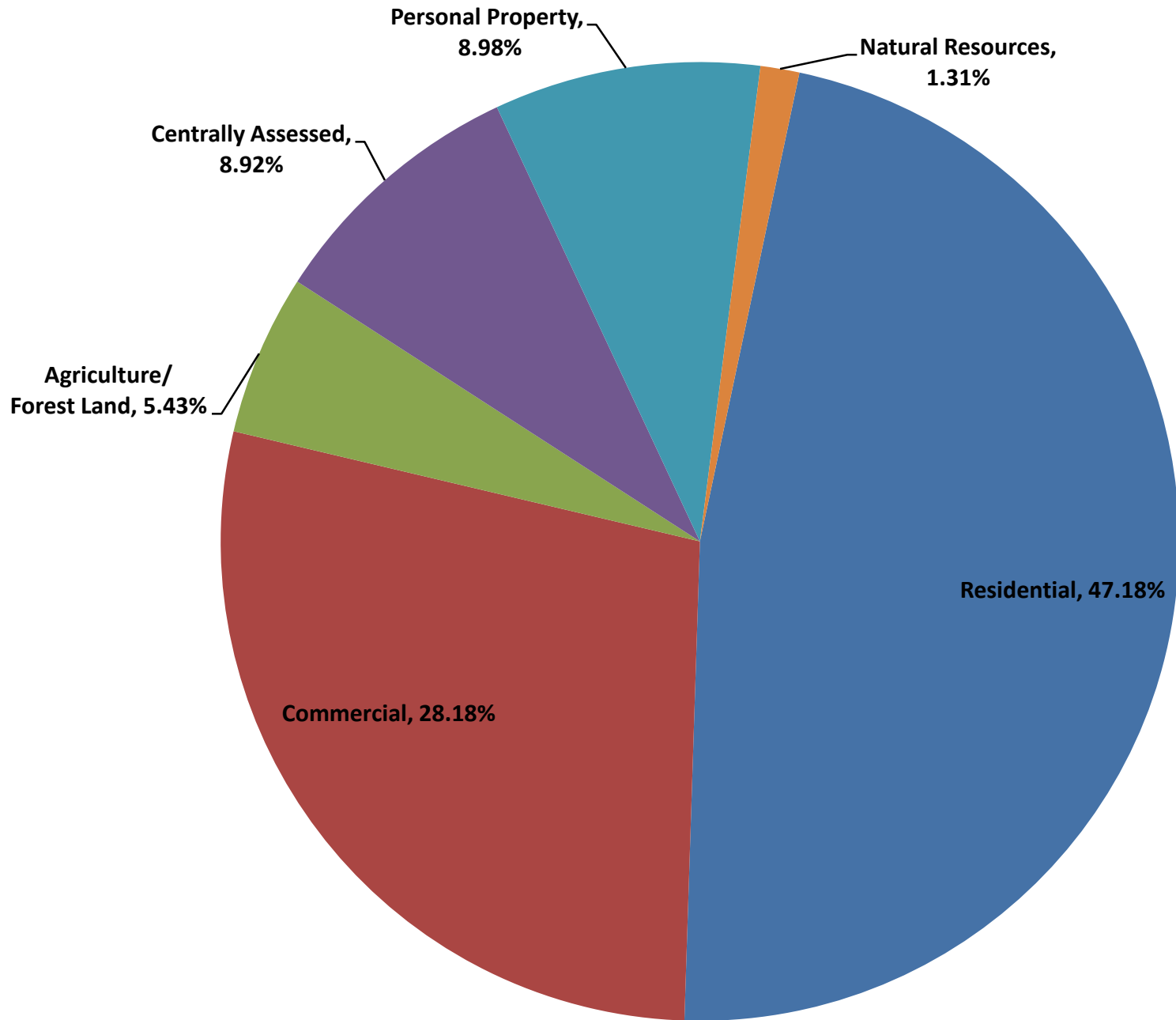


Some Background on Taxes

Allocation of Property Taxes by Taxing Jurisdiction Type in FY 2014



Percent of Taxes Paid By Class in FY 2014



Why can't we leave property values alone?

Constitution

- Requires all property to be valued by the state
- Equalization-the state is required to value similar property in the same manner

The Law

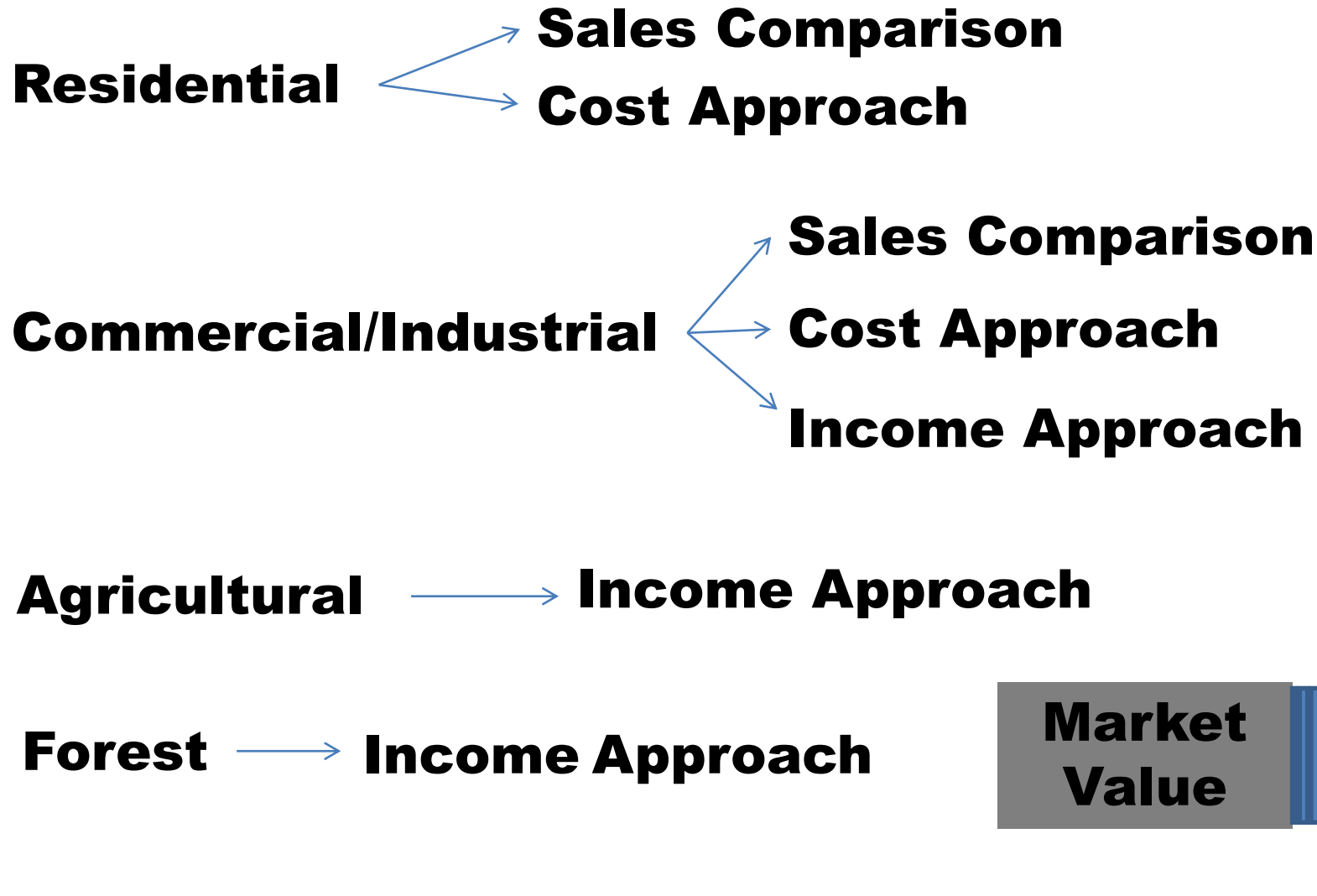
- The law requires the state to value residential, commercial agricultural and forest property every six years

The Market Value of property is determined using one of three valuation methods:

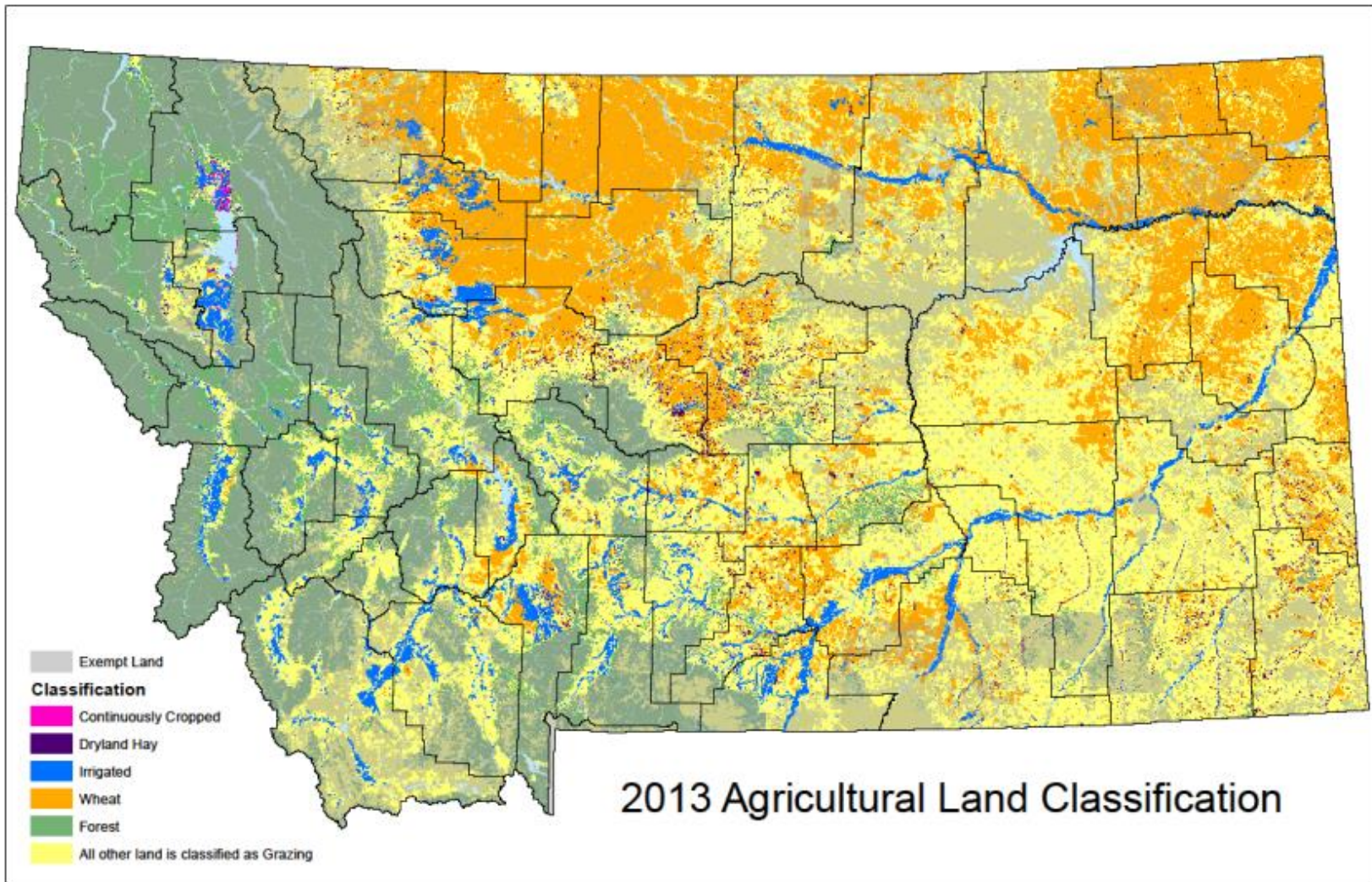
- **Sales**
- **Cost**
- **Income**



Valuation Methods Used by the Department by Property Type



Agricultural Land Valuation



Agricultural Land Valuation

- **Income Approach** – measures the value of a property by capitalizing the income from the property. The formula for agricultural land is:

Productivity Value =
$$\frac{(\text{land productivity} \times \text{commodity price} \times \text{crop share})}{\text{rate of return}}$$

**Market
Value**

Productivity

- **Natural Resource Conservation Service (NRCS)
Soil Survey**

And

- **Adjustments when appropriate to approximate
average production**



Commodity Price



- **7 Year Olympic Average**
 - **Grazing Land**
 - Private Grazing Fee
 - **Non-irrigated farm land (Summer fallow and continuous crop farmland)**
 - Spring wheat
 - **Irrigated and non-irrigated hay land**
 - Spring Wheat or Alfalfa Hay

Commodity Prices

(Current vs. Estimated 2015 Prices)

2015 Estimate	Indicates price not included in Average (Olympic Average calculation)					
Years Averaged	7 Years	10 Years	7 Years	10 Years	7 Years	10 Years
Commodity	Spring Wheat	Spring Wheat	Alfalfa	Alfalfa	Private Grazing Fee	Private Grazing Fee
Year	Price	Price	Price	Price	Price	Price
2013 (9 months)	\$6.70	\$6.70	\$154.00	\$154.00		
2012	\$8.39	\$8.39	\$146.00	\$146.00	\$20.50	\$20.50
2011	\$8.36	\$8.36	\$89.00	\$89.00	\$19.40	\$19.40
2010	\$6.87	\$6.87	\$79.00	\$79.00	\$18.40	\$18.40
2009	\$5.72	\$5.72	\$96.00	\$96.00	\$18.00	\$18.00
2008	\$7.36	\$7.36	\$117.00	\$117.00	\$18.10	\$18.10
2007	\$7.49	\$7.49	\$79.00	\$79.00	\$17.80	\$17.80
2006		\$4.58		\$78.00		\$16.20
2005		\$3.80		\$71.00		\$16.20
2004		\$3.69		\$77.00		\$15.90
Olympic Avg.	\$7.36	\$6.36	\$105.40	\$95.13	\$18.88	\$18.08
Adjustments	Gov't Payments not included	Gov't Payments not included	15-7-202 stipulates a 20% reduction in the alfalfa price	15-7-202 stipulates a 20% reduction in the alfalfa price	No adjustment	No adjustment
Current Estimate	\$7.36	\$6.36	\$84.32	\$76.10	\$18.88	\$18.08
2009	\$4.58	\$4.58	\$63.04	\$63.04	\$15.72	\$15.72
% change from current cycle	61%	39%	34%	21%	20%	15%

An Example of the Productivity Formula

**Productivity Value = (land productivity X commodity price X crop share)
rate of return**

Summer Fallow Farmland

Land Productivity = 22 bu./ac
Average price for spring wheat = \$7.61 /bu.
Crop Share = 12.5%
Rate of Return (Capitalization Rate) = 6.4%

**\$322.69/acre = 22 (bu./ac) X \$7.51 (/bu.) X 12.5%
6.4%**

Forest Land Valuation

- Income Approach – measures the value of a property by capitalizing the income from the property. The formula for forest land is:

$$\text{Productivity Value} = \frac{((\text{forest productivity} \times \text{stumpage value}) + \text{net agri. income})}{\text{rate of return}}$$

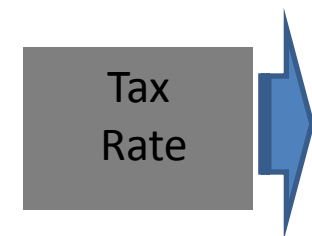
**Market
Value**

Estimated Change in Forest Property Value

Zone	Average Productivity	2009 value/Acre	2015 value/acre	% change
1	260.75	\$938.00	\$436.53	-53%
2	170.86	\$421.00	\$251.71	-50%
3	154.22	\$307.00	\$171.56	-44%
4	129.18	\$195.00	\$32.52	-83%

Tax Rate/Exemptions

The Legislature sets the tax rate and exemptions for each type of property.





Taxable Value Neutrality

Current Law, 2008 Values Fully Phased-in

Tax Rate

The tax rate for agricultural, commercial, and residential properties was determined by dividing the reappraisal year's taxable value of agricultural property by the current year's phase – in value of all agricultural property.

Property Type	2008 Market Value	2014 Taxable Value
Agricultural	5,835,395,000	154,104,000
Residential	90,001,488,000	1,171,926,000
Commercial	18,264,821,000	349,377,000

The Homestead/Comstead Exemption

Agricultural, commercial, and residential properties values change at different rates. However, they all have the same tax rate. To maintain taxable value neutrality commercial and residential property need further reduction in value. The Homestead and Comstead Exemption were calculated so when the tax rate was applied to the taxable market value the resulting taxable value of all commercial and residential property was taxable value neutral on a statewide basis.

Taxable Value Neutral Tax Rate & Exemptions, 2015 Values Fully Phased-in

Property Type	2015 Market Value	Exemption Rate	Tax Rate	2015 Taxable Value
Agricultural	8,508,233,000		1.81%	154,104,000
Residential	86,335,849,000	25.06%	1.81%	1,171,926,000
Commercial	21,599,588,000	10.70%	1.81%	349,377,000

Legislature sets the rates and exemptions required to balance the 2014 taxable value with the reappraised 2015 market value.

Tax
Rate



Determining the Value of Property in Montana

The Six-Year Cycle and Phase-In (Current Law)

As determined by the legislature real property is appraised once every six years using the valuation methods we just reviewed. Between appraisals, the new value is phased in increments equal to one-sixth of the difference of the old and new values. The 2014 value of real property is the fully phased in value determined in 2008. In 2020 current reappraised values will be fully phased in.

Change In Value and Phase-In Value*

2008 Market Value 172,700

2002 Market Value 113,803

Value to be Phase-In 58,897

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Number of Years to
Phase-In

6

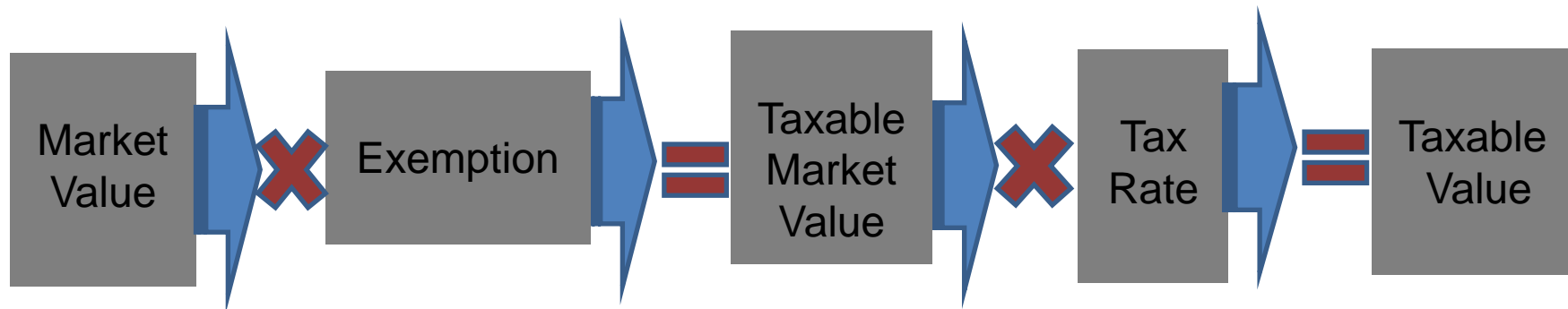
Amount to Phase-In
Each Year

9,816

**Market
Value**

Taxable Value

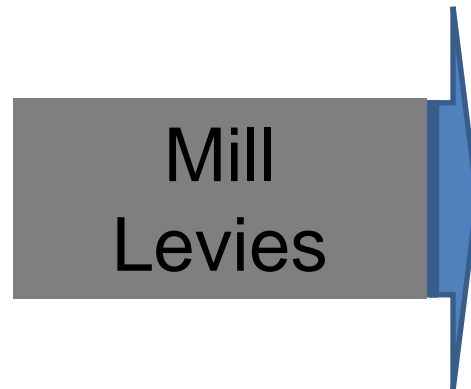
Once the Department determines the value of property and applies the tax rate and exemptions set by the Legislature. The Taxable Value of property is established.



Mill Levies

Mill Levies are set by state and local taxing jurisdictions or approved as ballot measures

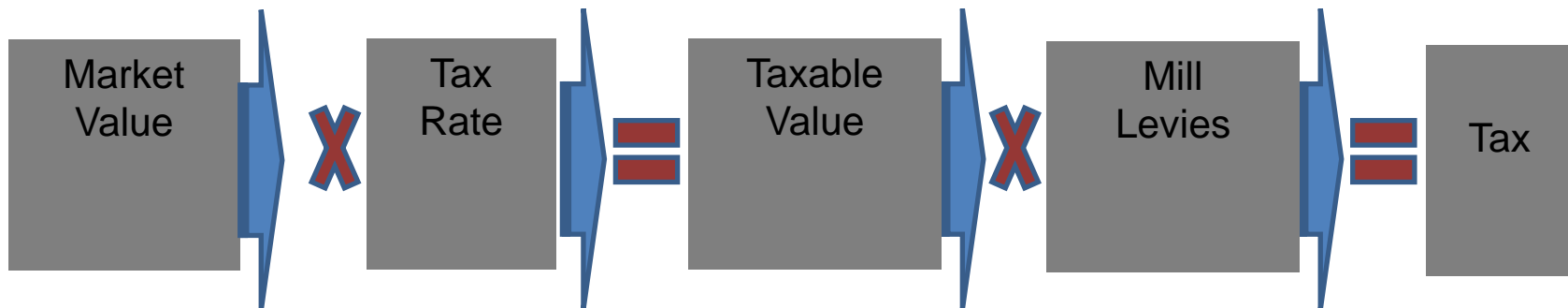
- School mills are limited by school budgeting laws
- Local government mills are limited by voted levies or the maximum mill limit (15-10-420, MCA)



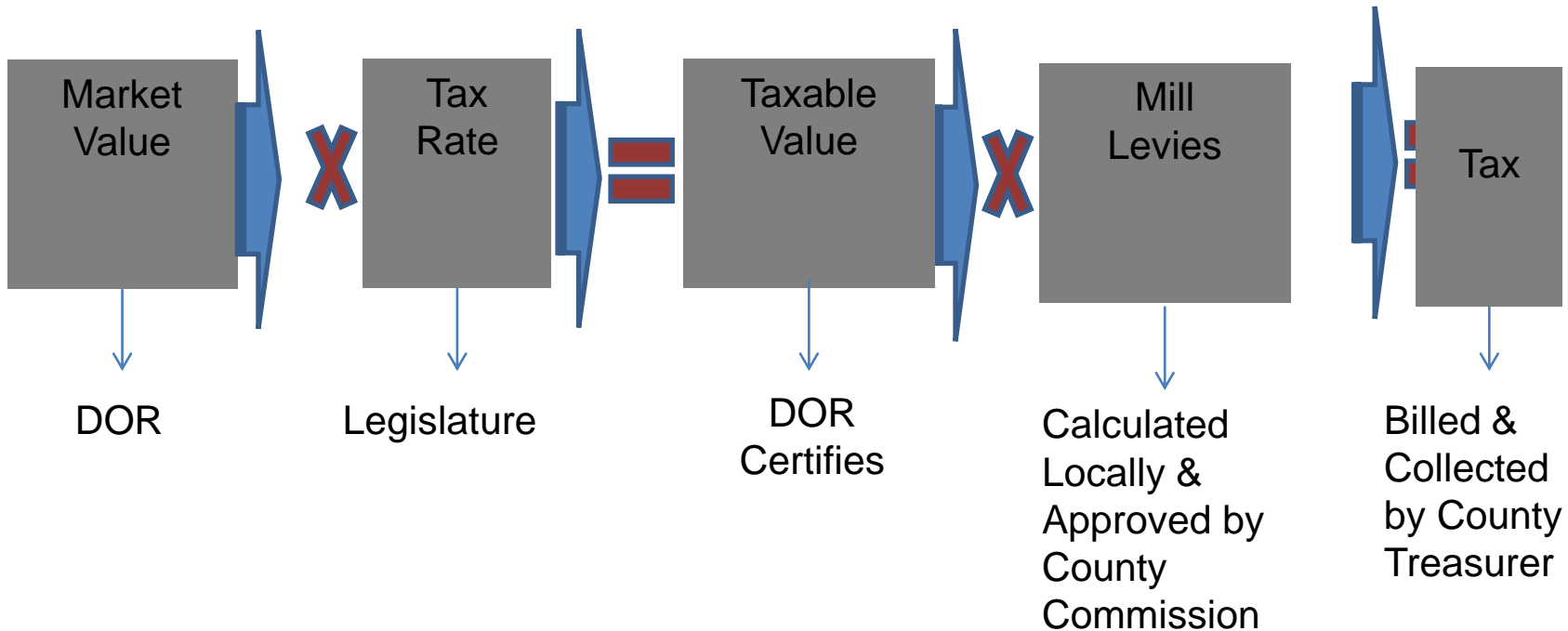
Property Taxes

The County Treasurer applies the mill levies approved by the County Commissioners to the taxable value of property from the Department of Revenue, which determines the amount of property tax owned by each property.

The County Treasurer then bills and collect the property tax from the property owner.



Property Tax in a Nutshell



Questions?